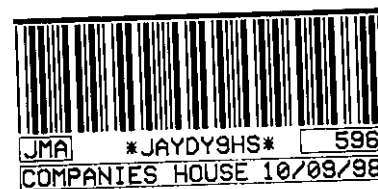


First Manchester Limited
(previously Greater Manchester Buses North
Limited)

Financial statements

28 March 1998

Registered number 2818607



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 28 March 1998.

Principal activity

The principal activity of the company is the provision of public transport by road.

Change of ultimate holding company

With effect from 23 December 1997, the name of the ultimate holding company was changed from FirstBus plc to FirstGroup plc.

Business review

The company made a profit before tax of £9.432m during the year (1997: £1.502m).

Financial matters

The results for the year are given in the profit and loss account on page 6.

The directors recommend the payment of a dividend of £10.000m (1997: £1.500m).

Fixed assets

In the opinion of the directors, there were no material differences between the market values of the company's properties and their net book values.

Creditors

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. A number of significant purchases, such as fuel and tyres and commitments under finance leases and hire purchase contracts and under operating leases are paid by direct debit. At 28 March 1998 the company had 49 days (29 March 1997: 50 days) purchases outstanding.

Change of Name

On 6th May 1998 Greater Manchester Buses North Limited changed its name to First Manchester Limited.

Directors' report *(continued)*

Directors and directors' interests

The directors who held office during the year were as follows:

NJ Barrett	(resigned 26/09/97)
DJ Leonard	(appointed 14/10/97)
GGT Varley	(appointed 16/07/97)
RW Dickinson	
RA Duncan (Chairman)	
MJR Mitchell	
RJ Noble	
TH Oliver	
RE Turner	(appointed 10/02/98)
DA Kaye	(appointed 01/09/97)

The following directors who held office at the end of the year had the following interests in the ordinary shares of FirstGroup plc.

Director	Ordinary shares		Shares options under savings related share option scheme	
	At end of year	At beginning of year or date of appointment	At end of year	At beginning of year or date of appointment
	5p shares	5p shares	5p shares	5p shares
DA Kaye	1050	1050	1111	1111
DJ Leonard	-	-	-	-

The interests of RA Duncan and GGT Varley in the ordinary shares of FirstGroup plc are disclosed in the directors report of FirstGroup plc. The interests of other directors in the ordinary shares of FirstGroup plc are disclosed in the directors' report of GMBN (Holdings) Limited.

There is no contract or arrangement with the company or any of its fellow group undertakings, other than service contracts, in which any of the directors is materially interested and which is significant in relation to the business of the company or any of its fellow group undertakings taken as a whole.

Employee involvement

Communication with employees is effected mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the central and depot negotiating committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests.

Directors' report *(continued)*

FirstGroup plc, the company's ultimate holding company, is committed to wide employee share ownership and has established an Employee Share Ownership Plan. The board of FirstGroup plc has resolved to allocate 5% of the Group's consolidated pre-tax profit to the ESOP. The trustees will use this to acquire shares in FirstGroup plc which will then be appropriated to participating employees of subsidiary undertakings. Employee involvement has been extended by the appointment of a further employee director, Mr DJ Leonard.

Disabled persons

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirements which have to be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution concerning the re-appointment and remuneration of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.



By order of the board

RE Turner

Secretary

21 August 1998

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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Report of the auditors to the members of First Manchester Limited (previously Greater Manchester Buses North Limited)

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 28 March 1998 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditors

21 August 1998

Profit and loss account
for the year ended 28 March 1998

	<i>Notes</i>	Year to 28 March 1998 £000	Year to 29 March 1997 £000
Turnover	2		
continuing operations		66,545	65,114
Operating costs			
General		(55,344)	(60,272)
Restructuring and other exceptional costs		-	(1,300)
Employees' profit sharing scheme		(360)	(280)
Total operating costs	3	(55,704)	(61,852)
Operating profit			
continuing operations		10,841	3,262
Loss on disposal of fixed assets		-	(455)
Profit on ordinary activities before interest		10,841	2,807
Net interest payable and similar charges	6	(1,409)	(1,305)
Profit on ordinary activities before taxation		9,432	1,502
Tax on profit on ordinary activities	8	(1,928)	3,412
Profit for the financial year		7,504	4,914
Equity dividends paid	9	(10,000)	(1,500)
Retained (loss)/profit for the financial year		(2,496)	3,414

No statement of total recognised gains and losses is given as all gains or losses for the year passed through the profit and loss account.

Balance sheet

at 28 March 1998

	Note	28 March 1998 £000	29 March 1997 £000
Assets employed:			
Fixed assets			
Tangible assets	10	36,579	31,333
Investments	11	1,405	1,405
		37,984	32,738
Current assets			
Stocks	12	691	872
Debtors	13	12,110	20,005
Cash at bank and in hand		1,817	486
		14,618	21,363
Creditors: amounts falling due within one year (including convertible debt)	14	(23,044)	(21,171)
Net current liabilities/assets			
Due within one year		(15,863)	(9,206)
Amounts due after more than one year	13	7,437	9,398
Net current (liabilities)/assets		(8,426)	192
Total assets less current liabilities		29,558	32,930
Creditors: amounts falling due after more than one year	14	(13,796)	(14,761)
		15,762	18,169
Financed by:			
Capital and reserves			
Called up share capital	16	-	-
Reserve arising on acquisition	17	6,286	7,083
Profit and loss account	17	9,476	11,086
Equity shareholders' funds		15,762	18,169

These financial statements were approved by the board of directors on 21 August 1998 and were signed on its behalf by:

MJR Mitchell
Director



Reconciliation of movements in shareholders' funds
for the year ended 28 March 1998

	1998 £000	1997 £000
Profit for the financial year	7,504	4,914
Dividends	(10,000)	(1,500)
	(2,496)	3,414
Goodwill arising on acquisitions of businesses written off/written back	89	(469)
Net additions to/(reduction in) shareholders' funds	(2,407)	2,945
Shareholders' funds at beginning of year	18,169	15,224
Shareholders' funds at end of year	15,762	18,169

No note of historical cost profits and losses is given as there were no material differences between the results as set out in the profit and loss account, and their historical cost equivalents.

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention modified to include the revaluation of land and buildings and in accordance with applicable accounting standards.

The format of the profit and loss account has been changed reflecting presentation generally adopted in the industry and the comparatives have been restated.

The ultimate holding company has included within its financial statements a consolidated Cash Flow Statement in accordance with FRS No. 1 (revised). Therefore, the company is not required to give its own separate Cash Flow Statement.

FRS No 9 has been adopted for the first time in preparing these accounts.

The ultimate holding company has agreed to provide First Manchester Limited with necessary working capital for at least one year from 28 March 1998 and accordingly these accounts have been prepared on a going concern basis.

Fixed assets and depreciation

Depreciation is provided to write off the cost (or valuation) less residual value of tangible fixed assets over their estimated useful economic lives as follows:

Freehold buildings	-	50 years straight line
Long leasehold properties	-	50 years or the lease term which ever is less, straight line
Passenger carrying vehicles:	-	3 to 15 years straight line
Other plant and equipment	-	3 to 15 years straight line

No depreciation is provided on freehold land or the land element of long leasehold properties.

Surpluses or deficits arising on the revaluation of tangible fixed assets are credited or debited to a revaluation reserve. On a subsequent disposal of a revalued asset, the revaluation surplus or deficit relating to this asset is transferred to the profit and loss account reserve.

Goodwill

Purchased goodwill is written off in full in the year in which it is acquired.

Leases and hire purchase

Assets held under finance leases, which are those leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and under hire purchase contracts are recorded in the balance sheet as tangible fixed assets. Depreciation is provided on these assets over the shorter of their estimated useful lives or lease term, as appropriate.

Future obligations under finance leases and hire purchase contracts are included in creditors, net of finance charges. Payments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligations. The finance charges are calculated in relation to the reducing amount of obligations outstanding and are charged to the profit and loss account on the same basis.

Notes (continued)

Accounting policies (continued)

All other leases are operating leases and the rental charges are taken to the profit and loss account on a straight line basis over the life of the lease.

Government grants

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Rebates in respect of duty paid on fuel are netted off operating costs.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Pension costs

Retirement benefits are provided for most employees of the company by means of a defined benefit pension scheme. This is funded by contributions from the company and employees. The company's contributions are charged to the profit and loss account based on recommendations by an independent actuary, in such a way as to provide for the liabilities evenly over the average remaining working lives of the employees. The difference between the charge to the profit and loss account and the contributions paid by the company is shown as an asset or liability in the balance sheet and the tax effect of this timing difference is included in deferred taxation.

2 Turnover and profit before taxation

Turnover represents the amounts receivable for services supplied to customers during the year.

The whole of the turnover and profit before taxation derives from the company's principal activities within the United Kingdom.

3 Operating costs

	Year to 28 March 1998 £000	Year to 29 March 1997 £000
Materials and consumables	17,383	19,436
Staff costs	34,971	35,739
Depreciation and other amounts written off tangible fixed assets	3,350	6,677
	55,704	61,852

Notes (continued)

4 Employee numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	Year to 28 March 1998 Number	Year to 29 March 1997 Number
Drivers	1,580	1,681
Maintenance and traffic	478	497
Administration	143	116
	<u>2,201</u>	<u>2,294</u>

The aggregate payroll costs of these persons were as follows:

	Year to 28 March 1998 £000	Year to 29 March 1997 £000
Wages and salaries	31,306	31,987
Social security costs	2,453	2,527
Other pension costs	1,212	1,225
	<u>34,971</u>	<u>35,739</u>

5 Directors' remuneration

The remuneration of the directors during the year was as follows:

	Year to 28 March 1998 £000	Year to 29 March 1997 £000
Aggregate emoluments (excluding pension contributions)	393	479
Compensation for loss of office	-	53
	<u>393</u>	<u>532</u>

Notes (continued)

5 Directors' remuneration (continued)

Retirement benefits accrue to 7 directors under defined benefit schemes. The emoluments of the highest paid director amounted to:

	Year to 28 March 1998 £	Year to 29 March 1997 £
Aggregate emoluments	123,776	177,791
Defined benefit pension scheme		
Accrued pension at end of the year	35,398	37,245
Accrued lump sum at end of year	-	88,506

6 Net interest payable and similar charges

	Year to 28 March 1998 £000	Year to 29 March 1997 £000
Finance charges payable in respect of finance leases and hire purchase contracts	1,412	1,339
Income from short term deposits	(3)	(34)
	1,409	1,305

7 Profit on ordinary activities before taxation

	Year to 28 March 1998 £000	Year to 29 March 1997 £000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
- audit fee	33	36
- non audit	3	2
Depreciation and other amounts written off tangible fixed assets	3,426	6,677
Rentals payable under operating leases		
- plant and machinery	266	518

Notes (continued)

8 Tax on profit on ordinary activities

	Year to 28 March 1998 £000	Year to 29 March 1997 £000
UK corporation tax at 31%		
Current year	2	12
Prior years	(28)	(14)
Group relief payable	93	-
ACT written back	(9)	-
Transfer from deferred tax		
Current year	1,679	-
Prior year	191	(3,410)
	<u>1,928</u>	<u>(3,412)</u>

9 Equity dividends

	Year to 28 March 1998 £000	Year to 29 March 1997 £000
Ordinary shares of £1 each		
- final paid	10,000	1,500

Notes (continued)

10 Tangible fixed assets

	Land and buildings	Passenger carrying vehicle fleet	Other plant and equipment	Total
	£000	£000	£000	£000
Cost or valuation				
At beginning of year	9,092	42,766	1,385	53,243
Additions	186	7,779	340	8,305
Intra group transfers	-	209	19	228
Disposals	-	(2,078)	(38)	(2,116)
At end of year	9,278	48,676	1,706	59,660
Depreciation				
At beginning of year	611	20,678	621	21,910
Charge for year	153	3,010	263	3,426
Intra group transfers	-	(158)	16	(142)
Disposals	-	(2,075)	(38)	(2,113)
At end of year	764	21,455	862	23,081
Net book value				
At 28 March 1998	8,514	27,221	844	36,579
At 29 March 1997	8,481	22,088	764	31,333

The net book value of land and buildings comprises:

	28 March 1998 £000	29 March 1997 £000
Freehold	3,516	3,460
Long leasehold	4,998	5,021
	8,514	8,481

Certain properties are subject to profit clawback arrangements if sold within a specified period.

£23.463m (1997: £19.568m) of net book value of the passenger carrying vehicle fleet and £0.235m (1997: £0.119m) of other plant and equipment was acquired under finance leases and hire purchase contracts. The depreciation charges on these assets during the year were £2.211m (1997: £1.874m) and £0.060m (1997: £0.100m) respectively.

Notes (continued)

11 Fixed asset investments

	Subsidiary undertakings unlisted £000
<i>Shares</i>	
<i>Cost</i>	
At beginning of year and end of the year	1,506
Provisions at the beginning and end of the year	(101)
Net book value at the beginning and end of the year	1,405

All subsidiary undertakings are wholly owned at the end of the year. All these companies are incorporated in Great Britain and registered in England and Wales.

All shares held in subsidiary undertakings are ordinary shares.

Group accounts are not presented as the company is a wholly owned subsidiary undertaking of FirstGroup plc, which is incorporated in Great Britain and registered in Scotland. Accordingly, these accounts present information about the company as an individual undertaking and not about its group.

12 Stocks

	28 March 1998 £000	29 March 1997 £000
Spare parts and consumables	691	872
	691	872

13 Debtors

	28 March 1998 £000	29 March 1997 £000
Amounts due within one year		
Trade debtors	979	1,023
Amounts owed from group undertakings	2,251	8,340
Other debtors	503	358
Prepayments and accrued income	741	792
Pension fund prepayment (see note 20)	198	94
Corporation tax recoverable	1	-
	4,673	10,607

Notes (continued)

13 Debtors (continued)

Amounts due after more than one year	28 March 1998 £000	29 March 1997 £000
Pension fund prepayment (see note 20)	5,897	5,988
Deferred tax asset (see note 15)	1,540	3,410
	7,437	9,398
	12,110	20,005

The deferred tax asset represents the taxation of certain timing differences which are expected to reverse without replacement in the foreseeable future.

14 Creditors

Amounting falling due within one year

	28 March 1998 £000	29 March 1997 £000
Bank overdraft	-	915
Obligations under finance leases and hire purchase contracts	5,334	4,190
Trade creditors	2,337	4,025
Amounts owed to group undertakings	6,984	1,405
Corporation tax	-	12
Other tax and social security	592	833
Other creditors	1,197	577
Accruals and deferred income	6,600	9,214
	23,044	21,171

Amounts falling due after more than one year

Obligations under finance leases and hire purchase contracts		
Due between one and two years	4,945	3,937
Due between two and five years	8,851	10,769
Due after five years	-	55
	13,796	14,761

Finance lease and hire purchase contract liabilities are secured on the assets to which they relate. The contracts vary in length between five and ten years and are on normal commercial terms at negotiated rates.

Notes (continued)

15 Deferred taxation

The amounts provided for deferred taxation and the amounts not provided are set out below. The amounts unprovided represent contingent liabilities and are calculated using a tax rate of 30% (31 March 1997: 33%).

	28 March 1998		29 March 1997	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Accelerated capital allowances	143	2,699	97	1,978
Other timing differences	(2,133)	-	1,466	-
Trading losses	450	-	(4,973)	-
Unrealised capital gains	-	546	-	516
	<u>(1,540)</u>	<u>3,245</u>	<u>(3,410)</u>	<u>2,494</u>

No provision is made for tax of £0.546m (29 March 1997: £0.516m) which would arise on the disposal of land and buildings transferred from other group undertakings at a value in excess of original cost. It is not the intention to dispose of them without reinvestment of the sale proceeds.

16 Called up share capital

	28 March 1998 £	29 March 1997 £
<i>Authorised</i>		
Ordinary shares of £1 each	<u>100</u>	<u>100</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>100</u>	<u>100</u>

17 Reserves

	Reserve arising on acquisition £000	Profit and loss account £000
At beginning of year	7,083	11,086
Write back goodwill arising on acquisition of businesses written off in prior year	-	89
Realisation of reserve arising on acquisition	(797)	797
Retained profit for the year	-	(2,496)
At end of year	<u>6,286</u>	<u>9,476</u>

Notes *(continued)*

18 Commitments

Capital expenditure

- (a) Capital commitments at the end of the financial year for which no provision has been made are as follows:

	28 March 1998	29 March 1997
	£000	£000
Contracted for but not provided	5,363	497
Authorised but not contracted	-	903
	5,363	1,400

	28 March 1998	29 March 1997
	£000	£000
Operating leases which expire:		
Within one year	198	305
From two to five years	206	294
	404	599

19 Contingent liabilities

The company is a member of a VAT group covering a number of subsidiary undertakings. All members are joint and severally liable in respect of any VAT owed to HM Customs and Excise.

Notes (continued)

20 Pension scheme

The company participates in the Greater Manchester County Superannuation Fund, which operates within the requirements of the Local Government Superannuation Regulations and provides benefits of the defined type. The assets of the scheme are held in separate trustee administered funds. In addition the company provides self funded and ex-gratia benefits, supplementing those payable from the Greater Manchester County Superannuation Fund and also operates a defined contribution pension scheme and also participates in a further defined benefit scheme.

An actuarial assessment of the scheme was carried out as at 31 March 1995 by the fund's actuary.

Cash contribution rates are determined by the fund's actuary on the basis of triennial valuations. As a result of this valuation carried out at 31 March 1995, a cash contribution rate of 4.5% to the fund is anticipated by the company until 1999.

The total pension charge for the company to the profit and loss account during the year was £1.212m (1997: £1.225m). The cash contribution rate was determined using the attained age method and assumed investment returns would be 9% per annum, earnings increases would average 6.5% per annum, present and future pensions would increase at the rate of 4.5% per annum and that dividends would increase at the rate of 4.5% per annum. The prepayment in respect of the fund benefits is £6.095m (1997: £6.082m).

	28 March 1998 £000	29 March 1997 £000
Surplus on defined benefit fund	11,302	11,659
Provision for self funded provisions	(5,207)	(5,577)
	6,095	6,082

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The ultimate holding company is FirstGroup plc, which is incorporated in Great Britain and registered in Scotland. Copies of the accounts of FirstGroup plc can be obtained from Corporate Headquarters of this company at 32a Weymouth Street, London, W1N 3FA